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DID YOU KNOW...

There are two types of debt: secured and unsecured. When you borrow money to buy a house, the bank can take back the house to recoup their money if you don't pay the debt. That means the debt is secured – it's being balanced against something that you want to keep, and gives the bank some measure of security that they're going to be able to recover the money they've loaned you.

Unsecured debt, on the other hand, means the bank can't reclaim the thing you're buying with the borrowed money. (Credit card debt is unsecured, and so are student loans.) [Click here](#) to look at the impact of four key consumer loans, a mix of secured and unsecured debt,

Welcome to the October issue of the *Real Estate Journal*, which is designed to help keep you in the know regarding Real Estate and Mortgage related matters!

This month's edition aims to lower stress levels with real math, as well as highlight the use of professionals. Please let me know if you have any questions or feedback regarding anything outlined below.

Thanks again for your continued support and referrals!

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Interest Rates & Payment Increases: The Actual Math

For several years headlines have warned of 'inevitable' interest-rate hikes. But reality has seen interest rates drop steadily over the past several years, to

will have no effect on your monthly payments or interest expense until your actual renewal date. Also on the upside, this gives you time to prepare for the potential of higher interest rates.

What 0.25% means to you will ultimately be much the same as the mathematics

on your credit score – and, ultimately, your mortgage worthiness, courtesy of *Forbes*.

HAPPY *Thanksgiving*



Wishing you a wonderful
Thanksgiving
with family and friends!

new record lows. It is the opinion of most Brokers - the frontline workers - that any increases in interest rates will be small and they will be gradual.

A key component often lacking from stories about potential interest rate increases is the actual math or impact of said increases. So I offer for you a cheat sheet outlining what eventual increases would mean to you personally.

Are you in a variable rate mortgage?

If yes, the Bank of Canada meets eight times per year (with the next meeting scheduled on October 21st) in order to make a decision that will influence the prime interest rate on which variable rate mortgages are based. Very rarely does Prime move by more than 0.25%.

What 0.25% means to a variable rate mortgage:

Per \$100,000 of mortgage money borrowed, a 0.25% interest rate increase for the typical mortgage holder would translate into a monthly payment increase of \$13.00.

\$13.00 per \$100,000 of mortgage money.

Eventual increases are likely to come in 0.25% increments, gradually.

Tip of the day: Variable rate mortgage holders can utilize prepayment privileges to increase their payment by at least \$13.00 per \$100,000 owed each year. Every penny of the immediate increase will be going straight to principal owed and will in turn reduce the amount of interest on every future payment. More importantly, you're getting out ahead of any future rate increases and your payment will already be increased.

Being one, two or three steps ahead makes sense, call your Broker about making a small increase today, to cushion you tomorrow.

Are you in a fixed rate mortgage?

On the upside, any immediate changes to interest rates

above. The risk is that instead of a slow, gradual rise, you may be in for a full 1% interest rate increase by the time your renewal rolls around. But that is OK, you have time on your side and your rate is fixed for now.

Key point; the mortgage balance you are renewing will be (in most cases significantly) lower than your original balance and thus the impact of an interest rate hike is that much less dramatic.

For example, a \$300,000 mortgage on a 30 year amortization, taken at 2.59% today will have an ending balance five years from now of \$264,613.00. (Increase your payments each year and it will be lower still)

Renewing \$264,613 at an interest rate 1% higher would increase the payment from \$1,197.27 to \$1,333.74.

Increasing your payment by 0.25% (\$39.00 per month) each year would have you ahead of that curve.

In any event, this is an 11.5% increase in your payment. Five years from now, odds are your household income will have risen by at least \$136.47.

This is not to say an increase of 1% is not meaningful, but with five years to prepare, it need not be.

In the event that interest rates continue to defy journalists' and various analysts' expectations, as they have done for the past six years, and remain low – while you increase your payment incrementally each year, then come renewal, you will truly be sitting in a plum position. Your mortgage payment amplified the point that your effective amortization will have reduced by several years and your mortgage balance will be decreasing at a more rapid pace than any mortgage balance has in the past 50 years.

Call your Broker and talk about ways to take advantage of 50 year record low interest rates.

Call Your Local Professionals



We have seen no shortage this year of headlines from 'credentialed' observers of the Canadian Real Estate market from around the world loaded with dire forecasts. Another year another story of the IMF, a foreign banks analyst, or some other entity making predictions about a market that does not exist. There is no National Real Estate market, and forecasts about Canadian Real Estate are as useful as forecasts about Canadian weather.

All that really matters is whether or not it is sunny or snowing in your specific neighbourhood. And that often takes a local expert with their feet on the ground.

Here are a few things about the home that you own which most of these analysts seem not to consider:

- You live there and you have to live somewhere. You are not leaving very easily.
- Canadian mortgages are 'Full Recourse' mortgages. You cannot throw your keys on the banker's desk and walk away, the banker will follow you wherever you go and they will get the very last pennies owed to them.
- Canadian mortgage qualification standards are among the most stringent in the world. Despite this many CDN's borrow significantly *less* than they qualify for. We CDN's are a prudent bunch.
- Unlike the stock market, where a position can be liquidated with the click of a button, liquidating Real

On this final point, many a Real Estate investor can attest to wishing that at 4am, when roused from a deep slumber, and racing to a tenant's property to stop a leaking pipe flowing into the unit below – that if there were a 'sell' button it would get pressed at that moment.

Just as many a homeowner, watching tall trees swaying near their home in a windstorm (or worse) would also press that button 'just to be safe'.

But Real Estate is neither bought nor sold in split seconds, often logic exits the equation as well. Instead nearly every purchase and sale decision around Real Estate is driven by emotion - emotions which are driven by life circumstances.

Wonderful circumstances drive purchases and sales alike. Just as challenging circumstances can drive sales and possibly purchases as well.

Understanding that you are emotional is the first step. The next is enlisting your best allies;

- A level-headed Realtor.
- A level-headed Mortgage Broker.

The right team will protect you from selling too low, buying too high, moving too quickly, and even from moving too slowly.

Seek professional guidance, a third party that will offer perspective that could be missing from an otherwise overheated experience.

We are here for you.

Estate is slow, cumbersome, and often tedious. Taking weeks, if not months.

About



Royal LePage is Canada's oldest and largest Canadian owned real estate company. Founded in 1913 by Albert LePage when he was just 26 years old, Royal LePage is now Canada's largest real estate company with more than 14,000 agents in more than 600 locations across the country. And we firmly believe that you can only become the oldest and largest company by being the best.

Over the years, we've learned a lot about real estate – and how to provide the best possible service for our clients. Since the mid-1990s, Royal LePage has more than tripled the size of its sales force and almost doubled its market share.

Throughout our successes, we remain dedicated to helping you through the real estate process. Our commitment to innovation and customer service is as strong as ever.

We offer all of our REALTORS® – from those serving tiny communities to those in major urban centres – strong support from our national pool of knowledge, skill and technical expertise. We regularly invest time, money and resources to develop and provide the knowledge and tools they need to best market your home, including:

- Up-to-date information about local market conditions
- Quarterly housing reports
- Creative brochures and newspaper ads to showcase your home
- Ongoing negotiation, marketing and technical training

This communication is not intended to cause or induce breach of an existing agency agreement.

**Not intended to solicit Buyers/Sellers currently under contract.